



Understanding the Psychology of Bitcoin and the Cryptocurrency Bubble

Description

The irrational exuberance surrounding Bitcoin and other cryptocurrencies is growing at a furious pace. In only a month, the revolutionary digital currency has incredibly more than doubled to be trading at over US\$16,000 giving it a market cap of US\$276 billion. This makes Bitcoin worth more than **Royal Bank of Canada**, which is the largest stock by market cap on the **S&P/TSX Composite Index**, yet it is not a widely accepted medium of exchange or a productive asset.

While prominent investors, including Warren Buffett and Ray Dalio, claim that Bitcoin is massively overvalued, and there are signs that it is in the largest [market bubble](#) since the Dutch tulip mania almost four centuries ago, there are indications that it will climb higher.

In fact, I would not be surprised if Bitcoin hit US\$20,000 in coming weeks.

Now what?

You see, while Bitcoin has appreciated massively in recent months, the digital currency continues to rocket skyward with irrational exuberance and euphoria dominating the decisions of investors. At this stage of a bubble, asset prices grow at an exponential rate, as investors throw caution to the wind and become caught up in the euphoria of making massive, outsized profits.

Less-sophisticated investors pile in to the market with the belief that prices can only appreciate further, because there will always be another investor willing to pay a higher price. It is here that a new investment paradigm is announced with unique valuation measures and metrics being introduced to justify the inflated prices.

Bitcoin's tremendous appeal stems from claims that it is the currency of the future, which will revolutionize how payments are made due to its portability, ease of storage, and self-regulated structure. While it certainly could transform cross-border payments, it is the underlying blockchain technology, and not Bitcoin itself, that is unique.

As the deluge of new initial coin offerings (ICOs) demonstrates, Bitcoin itself is not irreplaceable, and any person with the right skills can create a new cryptocurrency. This has a dilutive impact on the

market and the value of cryptocurrencies when a new one is launched.

Furthermore, Bitcoin like other cryptocurrencies, [lacks utility](#) and has no intrinsic worth, meaning that its value is solely extrinsic, or based upon sentiment and what investors are willing to pay for it. When the irrational exuberance surrounding cryptocurrencies starts to wane and the sensational claims regarding their transformative characteristics are found wanting, their value will plummet, and the bubble will burst.

Nevertheless, with Wall Street scrambling to profit from Bitcoin's stratospheric rise through the introduction of exchange-traded products such as futures, other derivatives, and funds, the bubble will continue for some time yet.

So what?

One Canadian stock that has benefited considerably from cryptocurrencies' dizzying rise is **HIVE Blockchain Technologies Ltd.** ([TSXV:HIVE](#)), which mines Ethereum blockchain. It has two cash flow positive cryptocurrency-mining facilities in the low-cost jurisdiction of Iceland and the option to acquire three more facilities.

Since the start of the year, it has more than tripled in value, and while it will continue to appreciate as cryptocurrencies rise in value, it is extremely vulnerable to the bubble bursting. That essentially makes it a high-risk bet on cryptocurrencies and their sky-high valuations.

CATEGORY

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